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Germany

Grain and Feed

German Grain Harvest 2004

2004

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Report Highlights:

The German grain harvest 2004 broke a new record amounting to 50.1 MMT compared to 39.4 MMT in drought stricken year 2003 and the six year average of 44.5 MMT. Grain quality is good. Prices have already dropped significantly compared to one year ago. The intervention price will set the floor price for baking wheat, barley and corn. Rye prices are no longer supported by the EU intervention system. The plentiful crop may result in intervention purchases of about five million tons of barley and one million ton of baking wheat. In MY 2004/05, three new ethanol plants processing grains will come into operation with a total annual processing capacity of 1.2 MMT.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Berlin [GM1]
[GM]

Germany – Grain Situation 2004

The German Ministry for Consumer Protection, Food and Agriculture (BMVEL) released its first preliminary **grain crop estimate** for 2004 on August 30, 2004. The total grain crop is estimated at **a record 50.1 MMT**. This is an increase of 27.2 percent versus 2003. However, the last year's harvest does not serve well as a comparison due to an extreme drought situation in the summer of 2003. Compared to the six-year average the 2004 grain crop still increased by 12.6 percent. A crop area increase of 1.1 percent only marginally contributed to the large harvest this year. Instead the main reason for the big crop were significantly improved yields due to proper planting conditions in the fall of 2003, a mild winter with hardly any winterkill, sufficient moisture supplies during Spring, and an extended growing period of about two weeks due to cool temperatures in June and most of July. As the second half of August was cool and rainy, late harvesting regions in the north and in the mountain regions report that a remaining 20 percent of the wheat crop faces harvesting problems.

Despite concerns that the cool and rainy July may have affected crop quality, farmers and traders report a high quality level for all grains. Certainly the very good quality level achieved in sunny 2003 could not be reached this year. The status of the cornfields is reported to be satisfactory to good.

German Grain Crop Estimate 2004

	2003			2004		
	Area	Yield	Production	Area	Yield	Production
	1000 ha	MT/ha	1,000 MT	1000 ha	MT/ha	1,000 MT
Winter Wheat	2,833	6.56	18,566	3,046	8.09	24,648
Spring Wheat	124	5.33	659	47	6.26	291
Durums	7	4.72	35	8	6.04	48
All Wheat	2,964	6.50	19,260	3,101		24,988
Rye	531	4.29	2,277	621	6.03	3,748
Winter Barley	1,323	5.28	6,979	1,360	7.02	9,548
Spring Barley	751	4.81	3,617	613	5.50	3,373
All Barley	2,075	5.11	10,596	1,974		12,921
Oats	262	4.59	1,202	227	5.13	1,164
Spring Mixed	34	4.18	137	25	4.77	117
Winter Mixed	11	4.43	53	10	5.85	56
Triticale	500	4.97	2,480	505	6.45	3,254
All	545		2,670	539		3,427
Corn	463	7.24	3,354	455	8.43	3,831
Grand Total	6,839	5.76	39,359	6,916	7.24	50,079
Rape Seed	1265.6	28.70	3634	1279.1		
Sugar Beet	445.6	53.22	23716	439.2		
Potatoes	287.3	34.53	9916	292.8		
Silage Corn	1172.9	37.83	44562	1289.7		

* FedMinAg Estimate

In general, German **grain prices trend in the direction of the intervention price.** Market experts forecast that up to six million tons of wheat and barley may end up in intervention storage. In MY 2003/04, only 113,794 tons of rye and 39,927 tons of barley were sold to the German intervention agency.

Since rye is no longer an intervention grain, an increased volume of rye will end up in hog feeding. However, a new outlet for rye is the production of ethanol from rye. Three new processing facilities have been constructed and are likely to start processing this fall. Their annual processing capacity is estimated at about 1.2 MMT. Rye prices are currently ranging from roughly 10 to 14 Euro lower than feed barley. This makes barley significantly less competitive. Also a larger crop of triticale competes with barley and wheat for use in the feed troughs.

Wheat

The wheat crop will be almost 25.0 MMT. Most of the wheat has been harvested under optimal conditions during sunny weather. Quality is slightly below last year, which had been well above average. Most of the 2004 wheat crop will match intervention criteria. There is sufficient volume of elite and high quality baking wheat available. The trade reports that first shipments of high quality baking wheat from northern German production regions are already on the way to the UK. In return the traders expect that increasing amounts of UK feed wheat, which does not qualify for intervention may be sold to northern German feed compounders. Prices for this feed wheat are not supported by the intervention system.

We expect that due to the excellent grain crops in all neighboring EU countries, German exports of grains to other EU countries will be lower than in previous years. It is very much likely that about one MMT of wheat will be sold to intervention. Storage space is not expected to be a problem.

The EU ethanol plan has the potential to significantly influence local grain markets beginning in MY 2004/05. The industry claims that in Germany wheat is the best raw material for industrial alcohol production. In CY 2005, about one million tons of wheat are likely to be processed into ethanol with more processing facilities in the planning. Grain experts expect that this development will also alter the production scheme for wheat. They predict that more low protein / high starch varieties will be planted, which in return will replace baking wheat varieties. It should also be noted that an increased use of wheat to produce ethanol will also have the side-effect of producing DDG, a high protein distiller by-product. DDG is used as a cattle feed and competes with CGF, which Germany mostly imports.

Currently wheat prices at the farm gate range at about 91.50 Euro/MT for ordinary baking wheat and 95.25 Euros for high quality baking wheat and 104.80 Euro for elite quality baking wheat. On average this is about 20 Euro per ton less than one year ago. Feed wheat sells at about only 89 Euro since feed wheat does not enjoy the support of the EU intervention system.

Barley

The 2004 barley crop is about 2.3 MMT higher than in 2003 amounting to 12.9 MMT. The quality of both feed barley and of brewing barley is good. Most of it was harvested during dry weather and did not require any additional drying. Intervention criteria can be easily met by most of the crop. Since barley enjoys the support of the intervention price, FAS Germany forecasts that about five MMT of feed barley will end up in intervention storage. At the same time, German exports are likely to shrink by about 800,000 tons since neighboring

European countries are also harvesting significantly more grains. It is also likely that also grains from neighboring new member states will be offered to German intervention storage since appropriate storage facilities are reported to be short in these countries.

German barley exporters face stiff competition on their number one export market, Saudi Arabia. Black Sea grains are currently more competitive than German barley. The trade is waiting for the European Commission to offer export subsidies.

By the end of August, barley prices at the farm gate were about 10 Euro per ton lower than one year ago but significantly more expensive than rye and also triticale. Feed barley is only slightly cheaper than feed wheat.

Rye

Rye area and yields increased noticeably in 2004. The area expansion was in part due to the fact that there was hardly any winterkill in 2004 compared to 2003. Often farmers in the northern and eastern parts of Germany do not have any other option than planting rye in their marginal fields. However, the erection of three ethanol plants, which process rye and wheat, spurred the planting of rye in northern Germany. The total annual processing capacity of these plants is estimated at 1.2 MMT of grains. Optimists expect that about 300.000 MT of rye will be distilled to bioethanol.

Currently, prices offered to farmers for rye in the northeast of Germany range between 60 and 70 Euro per ton. However, traders do not expect that much volume will be traded at this low price level. Farmers will store away the rye to wait for higher prices later in the season. More realistic prices are in the neighborhood of 80 Euro per ton.

Grain production experts foresee that farmers in the northeast will in the coming years increasingly switch to **low-input production methods for rye**. Traditional high-intensity production will no longer be economical with prices below 80 Euro per ton. Setting aside grain area is also not an option any longer because new cross compliance rules by the EU and the individual member countries will be too cost intensive. Farmers will only be allowed to plant certain approved cover crops, which prevent mineralization and penetration of nitrogen into groundwater. Low-intensity rye production might have similar production cost as cross-complied set-aside area.